Eco World Development (ECW MK)

Iran War Results In Increased Industrial Enquiries

	BUY(Maintained)
Share Price	RM2.15
Target Price	RM2.70
Upside	+25.6%

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Highlights

- The Iran war has led to increased industrial enquiries. While we estimate a 3% downside to earnings on a 5% increase in construction costs, we expect cost pressures to be eventually pass through via repricing of new launches.
- ECW is seeking more land near EBP7 on the back of a healthy net gearing of 0.17x (as of end-Jan 26) and strong industrial demand.
- Maintain BUY with a target price of RM2.70, implying a FY26-27 PE of 14-16x supported by 20% three-year CAGR over FY25-28.

Analysis

- **Seeking more land near EBP7.** Industrial sales at Eco Business Park VII (EBP7) have exceeded expectations, with RM688m of sales secured from its Phase 1-2 launches in 4MFY26, including cluster factories, semi-detached factories, and 1-5 acres of industrial land parcels. Eco World Development (ECW) is seeking a balance between larger land parcels and SME-driven demand, with the latter offering faster conversion, while larger deals typically carry longer conversion timelines. Non-bumi lots, which accounted for 60% launches, are fully taken up. Encouraged by the strong demand, management is looking to expand its landbank nearby EBP7.
- **Iran war is a net positive for demand…** ECW noted an increase in industrial enquiries following the Iran war, and expects a ramp-up in semiconductor-related investments and improving data centre demand. Nevertheless, management remains cost-conscious, having: a) built in additional cost buffers, and b) deferred new tenders to avoid knee-jerk contractor pricing. It expects gross profit margin to improve sequentially over the coming quarters (1QFY26: 25.6%).
- **…with manageable cost risks.** Based on our back-of-envelope estimates, a 5% rise in construction costs could translate to a 3% downside to earnings, assuming: a) construction costs account for 45% of GDV, b) 30% exposure to new projects, and c) no cost pass-through. Nevertheless, we reckon the overall impact should be limited, as cost pressures can be mitigated through cost sharing with contractors and gradual repricing of new launches.

Key Financials

Year to 31 Oct (RMm)	FY24	FY25	FY26F	FY27F	FY28F
Net turnover	2,258	2,931	3,604	4,009	4,440
EBITDA	490	799	904	1,012	1,114
Operating profit	468	771	865	962	1,043
Net profit (rep./act.)	304	438	539	623	724
Net profit (adj.)	354	418	539	623	724
EPS (sen)	11.5	13.0	16.8	19.4	22.6
PE (x)	18.7	16.5	12.8	11.1	9.5
P/B (x)	1.3	1.0	1.1	1.0	1.0
EV/EBITDA (x)	18.5	11.4	10.0	9.0	8.1
Dividend yield (%)	2.8	3.3	3.8	4.4	5.1
Net margin (%)	15.7	14.3	15.0	15.5	16.3
Net debt/(cash) to equity (%)	18.4	28.1	33.1	38.2	42.8
Interest cover (x)	4.2	6.0	4.7	5.0	5.2
ROE (%)	6.6	8.3	9.9	11.2	12.6
Consensus net profit	-	-	539	551	601
UOBKH/Consensus (x)	-	-	1.0	1.2	1.2

Source: Eco World Development, Bloomberg, UOB Kay Hian

Stock Data

GICS sector	Real Estate
Bloomberg ticker:	ECW MK
Shares issued (m):	3,221.1
Market cap (RMm):	6,925.4
Market cap (US$m):	1,758.9
3-mth avg daily t'over (US$m):	1.6

Price Performance (%)

52-week high/low				RM2.3/RM1.52
1mth	3mth	6mth	1yr	YTD
(3.6)	1.9	(3.6)	12.0	2.9

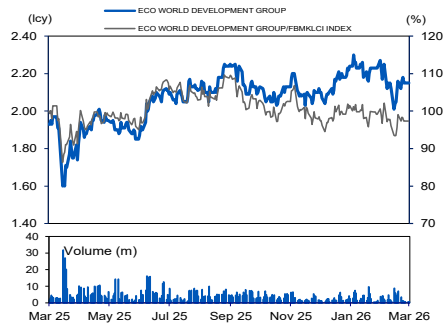
Major Shareholders

	%
Sinarmas Harta Sdn Bhd	30.1
Liew Tian Xiong	6.7
Eco World Development Holdings	5.3
EPF	4.5

Balance Sheet Metrics

	%
FY26 NAV/Share (RM)	2.13
FY26 Net Debt/Share (RM)	0.81

Price Chart



Source: Bloomberg

Company Description

Property developer with exposure in the Klang Valley, Iskandar Malaysia and Penang.

- **Potential to outperform FY25 sales, in our view.** We view the RM4b sales target as conservative, with management signalling an intention to exceed FY25's performance while remaining cautious amid the ongoing geopolitical uncertainties. To recap, FY25 sales came in at RM4.55b, supported by RM960m of data centre land sales to Microsoft and Google. ECW achieved RM2.1b in 4MFY26 and does not expect Eco Botanic 3 (RM410m) and EBP7 (RM688m) sales to be replicated at the same pace, as launches will be paced according to construction progress and delivery timelines. Nevertheless, upcoming launches of Chateau II at Eco Botanic, Sa.Young 3 at Eco Botanic 2, Santai 3 at Eco Spring, and terrace homes and shop offices at Eco Radiance should support sales momentum. We also do not rule out an additional large tract of land sales at EBP7. Hence, we keep our FY26 sales forecast at RM4.8b (+6% yoy).
- **Rising JV opportunities support landbank expansion.** With a healthy net gearing of 0.17x as of end-Jan 26, ECW is well-positioned to participate in JVs given its proven execution track record, as we understand landowners increasingly opt for partnerships to retain development upside. This is reflected in its recent JVs with JLand Group, involving: a) an 8.4-acre land for mixed development in Larkin, Johor with a GDV of RM1b, b) 316.2 acres of industrial park within IBTEC with a GDV of RM1b, and c) a residential development at Macquarie Park with a GDV of RM425m. Overall, we view this partnership positively given JLand's sizeable landbank in Johor and its Ibrahim Technopolis (IBTEC) development (RM27b in GDV across 7,290 acres). The three projects add RM2.4b GDV to ECW's pipeline (4.3% of remaining landbank of RM55.9b), with 3-4% or 3-4 sen to our target price, on a pro-forma basis.

Valuation/Recommendation

- **Maintain BUY with target price of RM2.70.** Our target price is based on a discount to RNAV of 25% and implies 1.3x FY26-27F P/B (+2SD to 10-year mean: 0.7x) and 16.1x FY26F PE and 13.9x FY27F PE. This is supported by strong earnings three-year CAGR of 20% over FY25-28 and an improvement in earnings quality from the inclusion of recurring data centre rental income. We like ECW for its solid earnings visibility and fast landbank turnover, particularly in the industrial segment for EBP7 and EBP8.

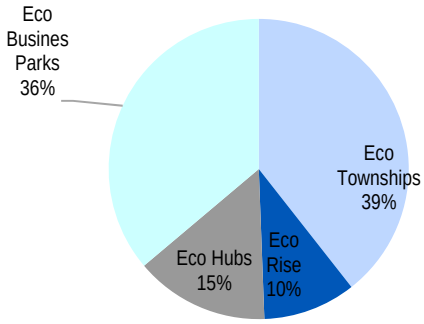
Earnings Revision/Risk

- No change to earnings forecasts.

Environmental, Social, Governance (ESG)

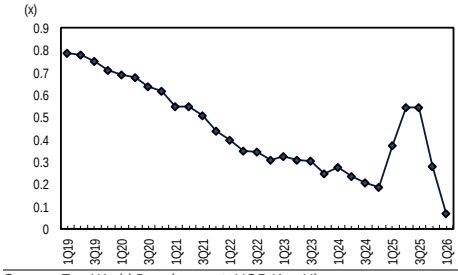
- Environmental - 36% reduction in Scope 2 GHG emissions (market electricity) from FY19 to FY24.
- Social - 100% of ECW's suppliers for building materials and main contractors are local.
- Governance - Good company transparency along with an Anti-Bribery and Anti-Corruption Policy.

4MFY26 Sales Contribution By Revenue Pillars



Source: Eco World Development, UOB Kay Hian

Net Gearing Level



Source: Eco World Development, UOB Kay Hian

One-year Forward P/B Band

Source: Eco World Development, UOB Kay Hian

EBP7 Revised Masterplan & Zoning

Source: Eco World Development, UOB Kay Hian

Revenue Forecasts By Region

	FY26	FY27	FY28
Klang Valley	1,384	1,641	1,863
Iskandar Malaysia	2,214	2,365	2,570
Penang	6	3	6
Total	3,604	4,009	4,440

Source: Eco World Development, UOB Kay Hian

Profit & Loss

Year to 31 Oct (RMm)	FY25	FY26F	FY27F	FY28F
Net turnover	2,931	3,604	4,009	4,440
EBITDA	799	904	1,012	1,114
Deprec. & amort.	28	39	50	71
EBIT	771	865	962	1,043
Associate contributions	45	75	117	188
Net interest income/(expense)	(132)	(191)	(203)	(214)
Pre-tax profit	616	749	876	1,017
Tax	(171)	(202)	(245)	(285)
Minorities	(7)	(8)	(8)	(8)
Net profit	438	539	623	724
Net profit (adj.)	418	539	623	724

Balance Sheet

Year to 31 Oct (RMm)	FY25	FY26F	FY27F	FY28F
Fixed assets	161	514	665	816
Other LT assets	7,622	8,198	8,814	9,503
Cash/ST investment	2,283	2,130	1,927	1,703
Other current assets	3,409	3,658	3,808	3,967
Total assets	13,475	14,499	15,213	15,988
ST debt	497	397	297	197
Other current liabilities	2,582	3,098	3,260	3,431
LT debt	3,537	3,887	4,237	4,587
Other LT liabilities	3,698	4,114	4,176	4,247
Shareholders' equity	6,240	6,506	6,816	7,177
Minority interest	-	(8)	(16)	(24)
Total liabilities & equity	13,475	14,499	15,213	15,988

Cash Flow

Year to 31 Oct (RMm)	FY25	FY26F	FY27F	FY28F
Operating	907	733	756	817
Pre-tax profit	616	749	876	1,017
Tax	(200)	(202)	(245)	(285)
Deprec. & amort.	28	39	50	71
Associates	(45)	(75)	(117)	(188)
Working capital changes	749	31	(11)	(12)
Other operating cashflows	(240)	191	203	214
Investing	(2,236)	(680)	(700)	(722)
Capex (growth)	(1,088)	(500)	(500)	(500)
Capex (maintenance)	(270)	(180)	(200)	(222)
Investments	(99)	-	-	-
Proceeds from sale of assets	-	-	-	-
Others	(779)	-	-	-
Financing	1,453	(205)	(258)	(319)
Dividend payments	(225)	(264)	(305)	(355)
Issue of shares	5	-	-	-
Proceeds from borrowings	1,776	250	250	250
Others/interest paid	(103)	(191)	(203)	(214)
Net cash inflow (outflow)	125	(153)	(203)	(224)
Beginning cash & cash equivalent	1,357	2,283	2,130	1,927
Changes due to forex impact	801	-	-	-
Ending cash & cash equivalent	2,283	2,130	1,927	1,703

Key Metrics

Year to 31 Oct (%)	FY25	FY26F	FY27F	FY28F
Profitability				
EBITDA margin	27.3	25.1	25.2	25.1
Pre-tax margin	21.0	20.8	21.8	22.9
Net margin	14.9	15.0	15.5	16.3
ROA	3.6	4.3	4.8	5.4
ROE	8.3	9.9	11.2	12.6
Growth				
Turnover	29.8	23.0	11.2	10.7
EBITDA	63.0	13.1	12.0	10.1
Pre-tax profit	51.4	21.6	16.9	16.2
Net profit	44.3	23.0	15.5	16.4
Net profit (adj.)	17.9	29.0	15.5	16.4
EPS	13.4	29.0	15.5	16.4
Leverage				
Debt to total capital	64.7	65.9	66.7	66.9
Debt to equity	64.7	65.9	66.5	66.7
Net debt/(cash) to equity	28.1	33.1	38.3	42.9
Interest cover (x)	6.0	4.7	5.0	5.2

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